

## Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 DODE-00 PM-05

H-01 L-03 NSC-05 PA-01 PRS-01 SS-15 STR-04 FTC-01

/101 W

-----128717 290616Z /15

R 281508Z JUL 77

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 7802

INFO AMEMBASSY ABU DHABI

AMCONSUL ALEXANDRI

AMEMBASSY DAMASCUS

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 01 OF 02 CAIRO 12639

E.O. 11652: GDS

TAGS: ETRD EINV ESTC EG

SUBJ: AMERICAN MOTORS JOINT VENTURE WITH ARAB INDUSTRIAL ORGANIZATION

REF: CAIRO 10493 (NOTAL)

1. SUAMMARY. AMERICAN MOTORS COPR., ACCORDING TO COMPANY OFFICIAL, WAS TO SIGN "FINAL" AGREEMENT WITH ARAB INDUSTRIAL ORGANIZATION ON JULY 25 FOR JOINT VENTURE FACTORY TO ASSEMBLE "JEEPS" IN EGYPT. AIO IS SEEKING DECREE EXEMPTING ITS PROJECTS FROM TAXES, DUTIES, AND RESTRICTIONS IN MEMBER STATES, AND BELIEVES, THAT FOR EGYPT, IT CAN OBTAIN APPROPRIATE ORDER FROM MINDEF GAMASY WITHIN TWO MONTHS. JOINT VENTURE PLANT COULD BE OPERATIONAL WITHIN ONE YEAR OF CONSTRUCTION START. AMC OFFICIAL  
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COMMENTED AT SOME LENGTH ON STRUCTURES AND FUTURE PLANS OF AIO.  
END SUMMARY.

2.. AMERICAN MOTORS (AMC) V.P. LAWRENCE HYDE CALLED AT EMBASSY JULY 25 TO BRIEF US ON STATUS OF AMC PROJECT TO ASSEMBLE "JEEPS" IN EGYPT IN JOINT VENTURE WITH ARAB INDUSTRIAL ORGANIZATION (AIO) (SEE REFTTEL). IN DISCUSSION WITH DCM AND COMATT, HYDE

SAID THAT AFTER MORE THAN 2-YEAR NEGOTIATING PROCESS, HE WAS SCHEDULED THAT AFTERNOON TO SIGN "FINAL" AGREEMENT WITH AIO TO ESTABLISH THE JOINT FIRM. (WE HAVE NO CONFIRMATION AS YET OF SIGNING HOWEVER.) ONLY SIGNIFICANT REMAINING OBSTACLE TO BEGINNING OPERATIONS IS NECESSITY OF WORKING OUT SPECIAL LEGAL STATUS FOR NEW COMPANY. HYDE SAID THAT CONTRARY TO ORIGINAL PLAN, WHICH WAS TO SEEK SEPARATE LEGISLATION BENEFITTING THE AMC PROJECT ALONE (SEE REFTEL), AIO NOW INTENDS TAKE BROADER APPROACH OF OBTAINING FOR ITS PROJECTS IN ALL MEMBER COUNTRIES, SPECIAL STATUS WHICH WOULD PROVIDE EXEMPTION FROM VIRTUALLY ALL HOST-COUNTRY TAXES, DUTIES, AND RESTRICTIONS. FOR PRACTICAL PURPOSES, HYDE NOTED, EGYPT IS ONLY COUNTRY CONCERNED, SINCE ALL PRESENT AND PLANNED AIO FACILITIES ARE TO BE LOCATED HERE.

3. EMBOFFS POINTED OUT THAT EGYPT IS ALSO ONLY AIO MEMBER COUNTRY WITH FUNCTIONING PARLIAMENTARY SYSTEM. THIS WOULD PRESUMABLY MAKE OBTAINING SPECIAL STATUS MORE DIFFICULT AND TIME CONSUMING. HYDE REPLIED THAT AIO OFFICIALS HAD INDICATED THEY BELIEVE OBJECTIVE COULD BE ACCOMPLISHED BY DECREE FROM DEPRIMIN AND MINDEF GAMASY WITHOUT NEED FOR EITHER LEGISLATIVE OR PRESIDENTIAL ACTION. AIO ANTICIPATES THAT APPROPRIATE ORDER COULD BE OBTAINED WITHIN TWO MONTHS. (COMMENT: DESPITE "CONNECTIONS" OF AIO CHAIRMAN ASHRAF MARWAN, AND PRIORITY ACCORDED TO MILITARY AND MILITARY-RELATED MATTERS IN EGYPT, EMBASSY QUESTIONS BOTH FEASIBILITY OF THIS APPROACH AND PREDICTION ON TIMING, ESPECIALLY IF FACTORY IS TO SELL ITS CONFIDENTIAL

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PRODUCTS IN CIVILIAN MARKET.)

4. ASSUMING TWO-MONTH PERIOD FOR SETTLEMENT OF LEGAL QUESTIONS, HYDE HOPES FOR OCTOBER 1 GROUND-BREAKING DATE, WITH COMPLETION OF PLANT IN 12 MONTHS. THESE ARE AMBITIOUS TARGETS, HYDE SAID, BUT AMC HAS ALREADY BEGUN NEGOTIATIONS WITH US/CANADIAN CONSORTIUM TO UNDERTAKE CONSTRUCTION. AS NOTED REFTEL, SITE FOR PLANT WILL BE ON CAIRO-SUEZ ROAD, NEAR CAIRO AIRPORT. AIO "ROCKET FACTORY" IS ADJACENT TO PROPERTY, HYDE NOTED, AND THERE ARE INDICATIONS AIO INTENDS ESTABLISH OTHER PLANTS IN SAME AREA. HYDE EMPHASIZED THAT VEHICLES TO BE ASSEMBLED WOULD BE IDENTICAL TO COMPARABLE MODELS PRODUCED IN AMC'S US PLANT. THERE IS NOTHING SPECIFICALLY "MILITARY" ABOUT VEHICLES, AND FOR THIS REASON, AMC HAS BEEN ADVISED BY COMMERCE AND OMC IN STATE THAT EXPORT CONTROL PROCEDURES ARE NOT APPLICABLE. AMC LOOKS FORWARD TO SUBSTANTIAL JOINT-VENTURE SALES TO CIVILIAN AGENCIES AND INDIVIDUALS IN MIDDLE EAST, ONCE MILITARY NEEDS OF MEMBER STATES FOR JEEPS ARE SATISFIED. PLANT WOULD PROBABLY REACH FULL CAPACITY -- 10,000 UNITS ANNUALLY-- WITHIN THREE YEARS. ASSEMBLY OPERATION, UNLIKE BASIC MANUFACTURING ONE, COULD EASILY BE EXPANDED IF DEMAND WARRANTS.

5. ON FINANCING OF PROJECT, HYDE CONFIRMED EQUITY FIGURE OF ABOUT

\$6 MILLION AND 51/49 PERCENT SPLIT BETWEEN AIO AND AMC (SEE REFTTEL). HE DID NOT INDICATE TOTAL CAPITALIZATION, EXCEPT TO SAY THAT PROJECT WOULD BE HIGHLY LEVERAGED, WITH GOVERNMENTS OF PARTICIPATING STATES PROVIDING DEBT PORTION, SOME OF IT PROBABLY IN FORM OF PRE-PAID ORDERS.

6. HYDE ALSO CONFIRMED REPORT (CAIRO 10531) THAT IN CONNECTION WITH ESTABLISHMENT OF JOINT VENTURE, AIO HAS UNDERTAKEN TO HAVE BOYCOTT SANCTION AGAINST AMC REMOVED. HOW AIO INTENDS TO PROCEED IN THIS MATTER IS UNCERTAIN, BUT HYDE MADE IT CLEAR THAT THERE WOULD BE NO CHANGE IN COMPANY'S ISRAELI OPERATION--SOURCE OF BOYCOTT PROBLEM. HYDE NOTED THAT IT WOULD BE IN INTEREST OF ARAB JOINT VENTURE PARTNERS TO HAVE BOYCOTT SANCTION LIFTED SO AS TO HAVE AS BROAD A MARKET AS POSSIBLE. CONFIDENTIAL

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HE SAID BASIS FOR LIFTING BOYCOTT WOULD BE SO-CALLED "SYRIAN FORMULA" -- INVESTMENT IN ARAB COUNTRY SUBSTANTIALLY GREATER THAN THAT IN ISRAEL.

7. IN ADDITION TO DISCUSSING SPECIFICS OF AIO/AMC JOINT VENTURE,

HYDE TOUCHED UPON A NUMBER OF OTHER POINTS OF SOME INTEREST: (A) REPLACEMENT OF SOVIET EQUIPMENT. ALTHOUGH JEEPS THEMSELVES ARE NOT "MILITARY" VEHICLES, HYDE NOTED, THEY ARE OF COURSE USED BY EGYPTIAN ARMED FORCES. INTENTION OF GOE MILITARY LEADERSHIP, ACCORDING HYDE, IS TO REPLACE BY AMC JEEPS ALL SIMILAR VEHICLES NOW BEING OPERATED. SOURCE OF THESE OTHER VEHICLES IS SOVIET UNION, AND HYDE REPORTED STRONG DISLIKE OF EGYPTIANS FOR THE SOVIET EQUIPMENT. VEHICLES THEMSELVES ARE FAR FROM WHOLLY SATISFACTORY. MORE IMPORTANT, PROVISION OF SPARE PARTS HAS BEEN ERRATIC AND UNDEPENDABLE. INSTEAD OF CONTAINING THE NUMBERS AND TYPES OF PARTS THAT HAD BEEN ORDERED, SHIPMENTS, WHEN THEY ARRIVED, WOULD BE FOUND TO CONSIST OF DOUBLE THE REQUIRED NUMBER OF SOME ITEMS AND NONE OF OTHERS EQUALLY IMPORTANT. THIS WAS TRUE EVEN IN DAYS WHEN EGYPT AND SOVIET UNION WERE ON BEST OF TERMS POLITICALLY. (IT IS NOT CLEAR FROM WHAT HYDE SAID WHETHER, ACCORDING TO EGYPTIANS, ANY DELIVERIES OF VEHICLE SPARES ARE CURRENTLY TAKING PLACE.) HYDE POINTED OUT THAT ONE OF REASONS AIO HAS LOOKED FAVORABLY ON AMC AS JOINT VENTURE PARTNER IS COMPANY'S PROVEN WILLINGNESS AND ABILITY TO DELIVER ON SPARE PARTS FOR EQUIPMENT IT HAD SOLD IN EGYPT.

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ACTION NEA-10

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R 281508Z JUL 77  
FM AMEMBSSY CAIRO  
TO SECSTATE WASHDC 7803  
INFO AMEMBSSY ABU DHABI  
AMCONSUL ALEXANDRIA  
AMEMBASSY DAMASCUS  
AMEMBASSY DOHA  
AMEMBASSY JIDDA  
AMEMBASSY KUWAIT  
/AMEMBASSY LONDON 3006  
AMEMBSSY PARIS

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(B) STRUCTURE OF AIO. HYDE MADE A NUMBER OF OBSERVATIONS ON ORGANIZATION AND STRUCTURE OF AIO. AMONG REASONS IT HAD TAKEN MORE THAN TWO YEARS TO REACH AGREEMENT ON JOINT VENTURE WAS THAT AIO WAS NOT SUFFICIENTLY WELL ORGANIZED TO BE EFFECTIVE. SITUATION HAS IMPROVED MARKEDLY IN LAST YEAR OR SO, AND HYDE COMMENTED POSITIVELY ON AIO GENERAL MANAGER YUSSEF AL TURKI AND HIS SEVERAL (FUNCTIONALLY SPECIALIZED) DEPUTIES.

(C) ASKED WHAT HE THOUGHT FUTURE OF AMC PROJECT WOULD BE IF AIO CHAIRMAN ASHRAF MARWAN LEFT THE ORGANIZATION, HYDE NOTED AGAIN CAPABILITY OF THE STAFF AND SAID AMC HAS TRIED TO ENSURE CLOSE WORKING RELATIONSHIP AT STAFF LEVEL BY, E.G., INVITING AL TURKI TO VISIT ITS US PLANTS AND PROVIDING TECHNICAL CONSULTATIONS FOR AIO PERSONNEL HERE WHO ARE ASSIGNED TO JEEP PROJECT TEAM. OF MARWAN, HYDE SAID THAT ALTHOUGH WELL CONNECTED (LESS SO, CONFIDENTIAL

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HOWEVER, THAN HE ONCE WAS), HE DOES NOT APPEAR TO BE A PARTICULARLY ASTUTE MANAGER. HE SOMETIMES GIVES IMPRESSION OF BEING ARROGANT, IS IMPULSIVE, AND APPARENTLY HAS DIFFICULTY DELEGATING AUTHORITY.

(D) HYDE PROMISED, AND LATER DELIVERED TO US, AN ORGANIZATION CHART OF AIO, WHICH AMC HAD MADE UP ON BASIS OF ITS EXPERIENCE

AND CONTACTS OVER PAST TWO YEARS. AIO ITSELF, HE SAID, CLAIMED TO HAVE NO SUCH DIAGRAM OF ITS OWN STRUCTURE AND HAD WANTED TO OBTAIN AMC CHART. EMBASSY POUCHING COPY OF CHART TO DEPARTMENT (NEA/EGY-KENNEDY).

(E) AIO PLANS FOR FUTURE. IN ADDITION TO JEEP PLANT, HYDE SAID, AIO IS ALSO INTERESTED IN SETTING UP FACILITY TO MANUFACTURE HEAVY TRUCKS, DESIGNED FOR OFF-ROAD MILITARY TRANSPORT. AIO HAS INVITED A NUMBER OF FIRMS TO SUBMIT PROPOSALS FOR JOINT VENTURE TO ASSEMBLE THESE VEHICLES. (THIS APPEARS TO BE SAME PROJECT REFERRED TO IN CAIRO A-115.) AM GENERAL, AN AMC AFFILIATE, PRODUCES THIS TYPE OF TRUCK AND IS PREPARING TO BID ON PROJECT. HYDE SAID, HOWEVER, THAT MERCEDES-BENZ APPEARS HAVE INSIDE TRACK. VEHICLE CONCERNED IS CLEARLY A MILITARY ITEM, WHICH WOULD INVOLVE OBTAINING PERMISSION TO EXPORT. HYDE SAID OMC HAS ALREADY GIVEN AM GENERAL GO-AHEAD TO MAKE PROPOSAL ON PROJECT.

8. ACCORDING HYDE, AIO IS "NEAR AGREEMENT" WITH BRITISH ON PROJECT TO ASSEMBLE HELICOPTERS, DESPITE RECENT HMG "TAKEOVER OF UK AIRCRAFT INDUSTRY", WHICH HAS CAUSED SOME DELAY. OTHER AIO PROJECTS- INCLUDING AIRCRAFT PRODUCTION, BEING PURSUED WITH FRENCH DASSAULT FIRM, AND DEFENSE ELECTRONICS, BEING DISCUSSED WITH FRENCH THOMPSON CSF COMPANY -SEEM FURTHER AWAY FROM REALIZATION. HYDE SAID ALSO THAT HE HAD HEARD THERE IS POSSIBILITY THAT KUWAIT MIGHT SOON JOIN AIO. HIS CONTACTS ARE VAGUE ABOUT WHY KUWAIT HAD NOT BEEN PART OF

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ORIGINAL AIO GROUP, BUT PERSONAL DISPUTE OF SOME SORT SEEMED TO BE AT ROOT OF PROBLEM.

9. IN CONCLUDING, HYDE ASKED FOR OVERALL EMBASSY VIEW OF AMC INVESTMENT PROJECT. DCM, WHILE NOTING THAT EVERY FIRM OBVIOUSLY HAS TO MAKE ITS OWN BUSINESS DECISION ON SPECIFIC PROJECT, SAID THAT IN PRINCIPLE, EMBASSY GAVE ENTHUSIASTIC SUPPORT TO IDEA OF US PRIVATE INVESTMENT IN EGYPT. IF PROJECTS WERE WELL CHOSEN, BOTH US AND EGYPTIAN PARTNERS WOULD BENEFIT, AND RELATIONS BETWEEN THE TWO COUNTRIES WOULD BE STRENGTHENED. FROM POLITICAL POINT OF VIEW, AMC PROJECT WAS PARTICULARLY APPROPRIATE. ALTHOUGH JEEP IS NOT MILITARY VEHICLE PER SE, IT IS USED BY MILITARY, AND ITS QUALITY AND AVAILABILITY WOULD SERVE IN SOME DEGREE TO OFFSET CLAIM THAT POLICIES OF SADAT REGIME HAD RESULTED IN LOSS TO EGYPTIAN MILITARY OF ACCESS TO SOME RESOURCES WITH NO COMPENSATING ADVANTAGE FROM NEW WESTERN FRIENDS.

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## Message Attributes

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**Review Markings:**  
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